

Message Text

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20/11

ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 AID-20 CEA-02 CIAE-00 COME-00

EB-11 FRB-02 INR-10 IO-14 NEA-14 NSAE-00 RSC-01

OPIC-12 SP-03 CIEP-02 LAB-06 SIL-01 SWF-02 OMB-01

SS-20 NSC-07 PA-04 PRS-01 USIA-15 DRC-01 /186 W

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R 120755Z JUL 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC 5890

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

DEPARTMENT OF TREASURY WASHDC

UNCLAS ROME 9628

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: POSITIVE DEVELOPMENTS IN ITALIAN BALANCE OF
PAYMENTS -- L/ESPRESSO/ ARTICLE POSSIBLY AUTHORED
BY CARLI.

1. WEEKLY MAGAZINE /L'ESPRESSO/ CARRIED ARTICLE ON JULY
11 WRITTEN BY BANCOR WHOM MANY CONSIDER EITHER GOVERNOR CARLI
OF BANK OF ITALY OR JOURNALIST EXTREMELY CLOSE TO GOVERNOR
WHO REFLECTS HIS VIEWS. BANCOR NOTED IN RATHER "I TOLD YOU SO"
ARTICLE THAT SAME POLITICAL, ECONOMIC AND LABOR GROUPS,
WHICH HAD INITIALLY WANTED TO HANG GOVERNOR CARLI IN EFFIGY,
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HAD FINALLY COME AROUND TO REALIZING NECESSITY OF FISCAL

PROGRAM WHICH GOVERNOR, IN MAY 31 ADDRESS AT ANNUAL BOI MEETING, HAD URGED AS NECESSARY TO CONFRONT ITALIAN ECONOMIC CRISIS. BANCOR ALSO OBSERVED THAT ITALY'S BALANCE OF PAYMENTS HAD TURNED AROUND, THAT ENORMOUS DEFICIT IN MAY HAD BEEN CUT IN HALF IN JUNE AND IN 15-DAY PERIOD FROM JUNE 20 TO JULY 5 ITALY HAD ACTUALLY HAD A MODEST SURPLUS. THIS MEANS THAT IN SPACE OF EIGHT WEEKS, OUTFLOW OF DUNDS WHICH WAS PROCEEDING AT RATE OF \$1 BILLION PER MONTH HAS BEEN BLOCKED. HE NOTED THAT THIS POSITIVE RESULT HAD A HIGH PRICE (I.E., NEW TAX LEVIES ON ORDER OF \$3 BILLION) WHICH WOULD HAVE BEEN CONSIDERABLY LESS IF DECISIVE ACTION HAD BEEN TAKEN EARLIER.

2. IN TURNING TO PROBLEM OF PACING EXPANSION OF MONETARY BASE WHILE NEW FISCAL PROGRAM TAKES EFFECT, HE OBSERVED THAT DEFICIT OF \$1 BILLION PER MONTH DESTROYS \$650 MILLION IN MONETARY BASE. RETURNING TO EQUILIBRIUM IN BALANCE OF PAYMENTS MEANS THAT \$650 MILLION WILL REMAIN AT DISPOSAL OF BANKS AND TREASURY. HE INDICATED THAT BOI WOULD NOT UNDERTAKE COMPENSATORY ACTIONS TO NULLIFY EXPANSIONARY EFFECT BALANCE OF PAYMENTS IMPROVEMENT WOULD HAVE ON MONETARY BASE BUT WOULD MAINTAIN SAME NEUTRAL ATTITUDE WHICH BANK HAD OBSERVED DURING PAS MONTHS WHEN SITUATION WAS IN REVERSE. VOLPE

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